Dup

July, 1921 Extension Circular No. 110

N. C. AGRICULTURAL EXTENSION SERVICE
OF THE
STATE COLLEGE AND
STATE DEPARTMENT OF AGRICULTURE
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U. S. DEPARTMENT OF AGRICULTURE COOPERATING
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COOPERATIVE MARKETING

By
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DISTRIBUTED IN FURTHERANCE OF THE ACTS OF CONGRESS OF MAY 8 AND JUNE 30, 1914

HD 1491

COOPERATIVE MARKETING*

By Aaron Sapiro of California

I am going to tell you the story of the raisin business in California, and for once we are going to talk about raisins without somebody asking how much yeast does it take, how long does it have to set, etc. You know raisins are produced in one section of California; this section contains something less than 10,000 square miles, but that is quite a big section of that State, and it so happens that in that section of California they produce these thin-skin grapes which authorities say are the best raisins in the world. They found that out in 1880 and they started these great vineyards, and men came from the East and from the Middle West and from all over the country to buy vineyards and plant raisins.

ABOUT OVERPRODUCTION

By 1900 they reached the point where there was an overproduction of raisins. They produced about 40,000 to 50,000 tons of raisins and the consumption was only about 30,000 tons. There were only about ten firms to whom the growers could sell the raisins. Some of the raisins come without seed and some come with seed and are seeded; others come in clusters and they have to be spread out and dried and processed, and then put up in large boxes or cartons before they can go to the consumer. There were ten packing plants. Five were great big ones, called the "High Five," and five were owned by smaller firms, called the "Low Five"; and in California if you didn't sell your raisins to the High Five or the Low Five you were stuck with raisins and you had to feed them to the hogs.

About 1900 they started in with this overproduction and the consumers who could not sell their raisins to the High Five or the Low Five had to keep them and feed them to the hogs. There was nothing else they could do with them. From 1900 to 1912 the growers of California who produced raisins were in just about the same situation that you men are—they had no real form of organization; they were just absolutely at the mercy of the buyers. Between the years 1900 and 1912 there was never a crop of raisins that produced a profit to growers of raisins as a whole in the State of California. Between those 12 years was the dark period of the raisin industry in that State. A buyer would call on a grower about February, and nobody on earth in February can tell what the crop of raisins is likely to be. He would say, "Now John, I have been up and down the State, and I want to tell you we are going to have a whale of a crop in California this year." John would say: "How does that interest me?" He would say: "The consumption is only about 30,000 tons of raisins, and it looks like we are going to have a crop of 50,000 or 60,000 tons of raisins. Our firm is going to buy only about 3,000 tons of raisins, and when we buy our 3,000 tons we are not going to buy another pound."

ONLY ONE BUYER CALLED ON GROWER

In those years there was a very peculiar coincidence. No more than one buyer would ever call on any one grower. Two buyers never went to one grower in any one of those sections, so a fellow knew if he did not make a

*From an address made at Danville, Virginia, May 14, 1921.

bargain with that buyer he would be gone and he wouldn't sell his raisins. The buyer would come back in March and say, "John, I have been down through the State, to all the different towns, and everywhere I go the signs are the same, and you can see it is going to be a huge crop. That means that half the growers are going to feed their raisins to the hogs. You have got to be thinking about selling your raisins. We are going to put you on our list and we will buy your raisins." John says, "I will talk about selling when you can talk a good price to me." So the buyer goes away and John would lean over the fence and say to his neighbor, "Bill, what have you been hearing about the crop?" And Bill would say: "A buyer was down to see me and he said we would have a crop of about 50,000 tons and there would be a big overproduction, and that if I didn't sell to him I would feed my raisins to the hogs." And John would say, "That is the very thing the buyer told me."

Strangely enough Bill and John would have heard exactly the same story from different buyers. Of course, men, I do not say that the buyers got together, but it is very queer how often they would agree on figures.

About a week later the buyer would come back to John and say, "John, we are ready to make a contract for raisins." John says, "We will see about it—what will you pay me?" The buyer says, "A cent a pound." John would say, "Ye gods, they have been telling us from the University that it costs from 2½c to 3c a pound to produce these raisins. I cannot sell for that; I owe more than I can possibly pay as it is; I cannot take that price." The buyer would say, "I tell you we have got to buy our raisins at exactly the same price as our competitors; we cannot pay you any more. I will be back to see you again in about a week and we will see if you are ready to sign. In the meantime you talk it over with your wife and your neighbor and your banker and see what you can do." So John would talk it over with his wife, and John's wife would say, "I do not know anything about the price, but we have got to get things for the house and we need things for the children, and a cent a pound is better than nothing." And John would say, "Let me talk it over with Bill." So he would go and lean over the fence again and say: "Bill, what have you been offered for your raisins, I am offered a cent a pound for mine." Bill would say, "Well, that is funny; I am offered a cent a pound by the other buyer." So then John would go and talk it over with his banker, and the banker would say: "Now listen, John, a cent a pound is a pretty rotten price for raisins, but I cannot tell you not to sell; and I can't advise you to sell at that price. I know you owe some money at this bank; I know you have got to pay some interest. That is not my money that you owe, it belongs to my depositors. All I want to tell you is that fall is coming around and the interest is due and I have got to have that interest; but of course I am not going to advise you to sell your raisins at a cent a pound—you have to make the decision." So he would go back to his home feeling pretty worried.

BACK LATER

The buyer would come back the next week and say: "You have either got to sign today or I cross you off the list and will get my 3,000 tons of raisins from the other fellows." And John would say, "I cannot sell at that price." The buyer would say, "Well, John, you have always handled your raisins in

good condition. If you give me your word of honor that you will not say a word of this to Bill or any other grower, I will make the price to you 1¼c a pound." And John would break a leg to get to that contract and sign it, and the buyer would go off with John's contract for a cent and a quarter a pound.

That trick was played all over California because the buyer understands the grower's psychology. All the grower is interested in is getting a little better price than his neighbor. The buyer plays up to John's psychology and makes him feel that he is smarter than Bill.

We have eliminated that in California now. Our growers sell on terms of fair prices for all and not a little better, secret price than his neighbor.

But that is how they worked the raisin game in California. Half of the crop used to be bought under these secret contracts, made under your word of honor not to tell anybody. And so John would sell his crop. August would come and the grapes would show. September would come and the grapes would be harvested. Usually there would be a crop of about 32,000 tons. The packers paid about 1½c a pound for the raisins; the packers would sell them from 6c to 8c a pound; the public would pay up to 18c a pound. The growers got 8 pennies out of every dollar that the consumer paid for the raisins, and there was only a half-cent expense in packing, etc., between the grower and the consumer. Under the present plan of coöperative marketing the growers get 48c out of every dollar paid by the consumer. That is why in California, from 1900 to 1912 every crop of raisins produced a big profit for the packers, and every crop of raisins left the grower poorer than he was when the year started.

You can take any one of the years between 1900 and 1912, and you can take any one of the counties in which raisins were produced, and there were more mortgages foreclosed in any one of those counties between 1900 and 1912 than in all the years in all the raisin-producing counties of California from 1912 to 1921. The great change came in 1912. The growers woke up, fully determined they were not going to be exploited in future years. They determined they were going to get more of the consumer's dollar without raising the price a cent on the consumer; they determined they were going to handle their business like business men and not like a lot of disorganized babies. They took up COOPERATIVE MARKETING.

MEETING OF GROWERS, BANKERS AND MERCHANTS

At the end of 1912 they had a terrific crop. Prices on raisins went down immediately—in some cases as low as a half-cent a pound to the growers, and over half of the crop was left in the growers' hands and they were simply broke. Some of the big men figured it out that by 1914 they would be absolutely cleaned out; that they might as well stop right now, sell their vineyards for what they could get, get out of the line and go to some other way of making their living.

So they went into town and began to talk to their bankes and their merchants; they began to hold little conferences in every little town around central California on the raisin industry; and the most famous meeting they had in Fresno. There was a big meeting in Fresno between the growers, bankers and merchants.

The leading banker got up and said, "You men simply hate me because the only time you ever see me is when you borrow money to loan on your vineyards; and the next time you see me is when you come in to tell me you cannot pay the interest on that mortgage; and the next time you see me is when you come to borrow more money for the next year's crop. The next time you see me is when you say you cannot pay the interest on either loan; and the next time you see me is when I tell you I have to foreclose. So you hate me because you think I am the man to make money out of your losses and misfortune, and do not help you to make any prosperity. I don't want you to think of me in that way as your enemy, I want you to be my friend. I would rather that you make than lose money. Profits are money to you, you pay your profits to the merchant and the merchants deposit the profits with the banks. I, as a banker, know that I cannot be a successful banker unless all you growers are successful and unless the merchants are successful; and if you growers will only get together and help yourselves I will put every penny in the world I have behind you, both my money and the money in my bank."

One of the growers said he pinched himself when he heard that—there was a banker telling them he would be willing to put up all of his personal resources behind them if they would help themselves.

Suddenly up spoke the biggest merchant in the town. He said: "I am sick of you fellows; when I came down to Fresno I expected to have a great big, fine, high-class store; I expected to carry fine stocks and I wanted to have a good store. I wanted to have a store of which you and I could be proud. But as it is now you fellows are not making any money; you are not making a living; you don't buy anything from me except overalls; you don't buy anything for your wife except Mother Hubbards; you don't buy any furniture except the cheapest; you don't buy any kitchen utensils except tin-ware. The only way I have made money in the last few years is by buying up mortgages on your vineyards, and then I foreclose on your vineyards and sell your vineyards, and I make a little money that way. But I don't like to make money that way; I want to make money as a merchant. If you men make money I can get some of your profits and I can put in fine, high-class stuff in my store which you can afford to buy and I can make decent profits. You fellows have to make profits for yourself so as to enable me to be a real merchant, and I've got to be a real merchant to help the bank make profits. If you fellows will organize, get together, and do something for yourself, I will put every penny I have in the world behind you."

NEWSPAPERS LOSING TOO

Then came the third big shock to the growers. Fresno has a real newspaper—*The Fresno Republican*, and they were not making money and the editor of that paper said: "I have my kick against these growers. Why, we have the best paper in California and we can't make any money on it because you don't make enough money out of your raisins to be a subscriber, and the merchants won't advertise in the paper because they say you fellows don't take the paper, and you don't buy anything; so I can't make any money on advertisements, and I can't make any money on your subscriptions because you fellows are not making any money. If you will get together and do something to help yourself we will put the columns of our paper behind you abso-

lutely, and every penny that our paper has and every penny that our proprietor has, we will put behind you to help you help yourselves."

One of the big growers got up and said: "The bankers are with us, the merchants are with us, the editors are with us; they all realize that unless the growers as a whole are making money the community is not prosperous, and now let the growers help themselves." And this big fellow said: "I wanted to sell my vineyard and I went down to the real estate firm to see about selling my place." They said, "What price do you put on your vineyard?" I said $90 to $100 an acre." He said, "What will it cost to tear out your vines?" I said, "$50 to $75 an acre." They told me my vineyard was worth more with the vines out than with the vines in." Another man got up and said, "All of our investments in these vineyards are going to the dogs; let's all get out of it at once and go in some other line."

Men started up all over the house and said, "We ought to organize." And they said, "How?" And somebody answered and said, "The orange and almond and walnut growers have organized and they have been successful. All over Europe the growers have been organized for years—Scandinavia and Italy and even parts of Russia, and you will find all the growers organized on all kinds of products." One of the growers said, "Do you think that we, the American farmers, who are supposed to be the most intelligent people in the world, are backward in these things"? And one fellow popped up and said, "Yes, the American farmer is 30 years behind in coöperative marketing. My opinion is if they can do it in Europe or any other place in the world, we can do it right here, and do it with raisins."

Some of the growers got up with the usual stuff that you hear—"oranges are different from raisins, and walnuts are different from raisins, and almonds are different from raisins, wheat is different from raisins, and peas are different from raisins and flax is different from raisins."

Of course they are all different from raisins. We all know that the fellow who is telling you that is the fellow who is trying to keep you disorganized, because the same principles which have made successful coöperative marketing of other products apply not only to raisins, but to tobacco and cotton and wheat and everything else in the world that men produce.

There is not a single grower problem which you cannot solve a whole lot better if you get together than you can solve when you are standing apart.

FORM MILLION DOLLAR CORPORATION

At this meeting in Fresno the growers said the question is to get together. Now here is the method we adopted; it was well suited to their conditions at that time. They decided to form a great big corporation with a million dollars behind it, because they were going to put up a great big packing plant to take the place of the "High Five" and the "Low Five." You have all these fine, big warehouses which perform the function of receiving, separating and grading tobacco. There is no need for the tobacco growers to start to put up warehouses and factories to do it, and we must respect their invested capital just as much as we want them to respect the capital we have invested in the growing line. So I am not suggesting the same plan for tobacco. I am suggesting for tobacco a plan that suits tobacco, just as the plan originally worked for raisins suited raisins.

So they agreed out there in Fresno to put up about a million dollars to pu up raisin picking plants, and they got the growers to tie up with the organiza tion for five years. We found growers associations that just simply rotte away because the growers were tied up for only one year, or because the were tied up on a little weak contract—we found that all over the State. W have had more failures than we had successes before 1912. Since 1912 w have learned how to do it. These raisin growers said we will not start unles we start right, with a big five-year contract and a tight five-year contract, i which every grower who signs it agrees to deliver over all the raisins he pro duces to the association, and then gives the association the right to grad them into clusters and into the seedless raisins, and then sell the raisins an give to every grower the same as every other grower for the same quality an quantity of raisins.

CONCERNING GRADING

Some of the growers said: "You can't grade raisins because one man' raisins are different from another man's raisins." Now you fellows hav heard that same thing about tobacco, haven't you? Now that is the pet argu ment of the speculator, that nobody can grade the stuff. We all answer back "What did you tell your buyers to do when they go out to buy raisins? Hov do they grade them?" They said, "Well, these buyers know how to do it. We said, "How many?" They said, "We suppose we have 50 or 60 men t grade raisins for us, and you cannot grade raisins." We said, "If you ar able to grade raisins we are able to hire men to grade *for* us instead of t grade *against us.*"

There has never been a thing which we organized to do which we have no succeeded in doing, and we succeeded absolutely in grading and classing raisins Remember, whatever the speculator does you can do. Here is the test. Sup pose these fellows who buy tobacco—let us take the Reynolds Company, o anybody else—sends out a bunch of buyers. They give these buyers instruc tions; they tell them what to buy, what type to get, the kind of leaves the should buy. They give these men absolute grading instructions, and thes buyers go out by the hundreds, as you well know. You are supporting a fe hundred buyers off of your tobacco. They grade tobacco by what we ca "buyer's grades." If they can do it—it does not take a genius to do it, becaus there are not 200 geniuses in the whole country at any one time—if they ca grade we can grade; we will get experts to do it for us and not against u You know the stockholders of Reynolds do not grade tobacco; they don't hav to know anything about grading tobacco; they hire salaried buyers to ge tobacco and grade it. They cannot do anything with the tobacco that yo can't do yourself.

So this grading business we just swept aside, and the raisin growers decide they could grade and they put the grading provision in the contract.

GROWERS SIGN CONTRACT

Every contract was conditioned upon their signing up 75% of all the raisi acreage of California. Some of the fellows said, "Why do we want 75% And we said, "We have either got to get the growers with us as a class or w might as well quit right now."

So they all agreed to sign up this five-year contract for 75% of the crop, under which they pooled their product, graded it and sold it and everybody would get the same price as anybody else for the same quality, grade and quantity of raisins.

Well, how do they get the sign-ups? You know a lot of your merchants and bankers have already realized that this is not the growers problem alone; it is the problem of the whoe community. We reaized that point in 1912 in California. So they all worked together; the towns closed up their stores, the banks closed, the schools closed, and they would form growers teams—two growers and a merchant, two growers and a school teacher, two growers and a doctor, two growers and a banker, two growers and a lawyer, and they would go out in these teams of three to every single raisin district in the State. Our associations have been put over not by the growers but by the growers and the community leaders combined, because our leaders have decided that if there is any agricultural interest that keeps four out of five of the growers poor that it is a rotten interest and it is rotten for the community; and they figure that the only thing that is good for the community is a thing that makes a profit for at least four out of five growers. So our community leaders have devoted themselves to making the growers see the need and advantage of coöperative marketing.

So they would send these teams out. The teams went to every town in the whole raisin district. It became almost as holy to these people as a religious movement. You talk to a Californian today about coöperative marketing and see what he thinks about it. The movement has transformed all of our districts from absolute despair to permanent prosperity—even during this year.

They went all through the raisin districts in California. In six months they had signed up 78% of the entire raisin acreage of that State. Not only had they done that but they had their million dollars.

Now how did they get the million dollars? The bankers and merchants put up $300,000. The growers did not have any cash and they put up $700,000 in notes and the banks took up these notes and let the farmers have face value on the notes.

FIRST YEAR

Suddenly came that awful crop of 1912, which was a 70,000 ton crop. In addition there were 20,000 tons of raisins on hand from the previous year; and there the association was organized and came into a thing like that the first jump. All the trustees and the directors were raisin growers; they had to be. You know the great safety of a California association is that the directors have all their raisins in the same pools as the smallest fellow. If they want to make a profit for their own raisins they have to make a profit for everybody else. If they want to make a charge on anybody else's raisins they have to put a charge on their own raisins. Now the directors and the trustees were chosen by the members, and the directors were these big raisin growers, and these directors met at Fresno, and they sat around a table and they looked at each other and they said, "We might as well not fool ourselves. We know we are all fine farmers, that we produce fine raisins, but we all know that we don't know a blame thing about *selling* raisins." They said, "Well now, that is interesting and that is frank.

You see, we know about this business, and right here I want to tell you tha is one of the great discoveries of the California farmers. We are just the same type of fellows as you are, but we know that *no farmer in the world* knows how to sell his crop. We have got 80,000 farmer coöperators in Cali fornia, just as energetic, just as intelligent as you, and not one of them tries to sell his own stuff. He would not try to sell it any more than he would try to draw up deeds for his property. So he hires experts to sell his stuff for him. Eighty thousand farmers in California, big, prosperous men, have hired men to help them with production and they hired great big men to help them on marketing. Every man has learned that we don't know a blame thing about marketing and are wise enough not to try to do the thing they know they can't do.

So these directors sat around that table and they said, "We can't sell this crop, let's hire some man who can." So they went and talked to their bankers and the bankers gave them a list of names who were supposed to be sharks a marketing raisins. They got the name of the man who was the smartest one of the lot, James Madison, and they went to see him. They told him, "You are known to be clean and you are known to be square, and we know you are fond of California, you don't want to see Fresno and all these towns stay dead. You know our towns are jokes; we have to put our wives and children in the field and keep the children out of school because we haven't the money to hire help. We want you to help us sell this stuff so we can take our wives and children out of the field and keep our children in school where they belong." James Madison says, "Do you know what salary I make a year?" They said, "Yes, we know you make a big one. We will give you a fair salary and we want you to represent us for the sake of California." He said, "Well, I will go with you, no matter what you pay, but I want you to treat me square." They said, "What do you think we ought to pay you as a start in salary?" He said, "$17,500 a year, plus a bonus." The salary, plus the bonus which they paid Madison, amounted to $25,000 a year. The best investment that the California farmer ever made was James Madison at $25,000 a year. Don't you ever dare ask for a fair price for tobacco and deny a fair price for *brains*. You have got enough tobacco in the world, but you haven't got enough brains on the farmers' side in the tobacco industry. You have got to get them on the same terms that the California farmer did. We always feel that the most important business in California is *agriculture*. It is not the Standard Oil Company, it is not the railroads, it is AGRICULTURE.

HIRE EXPERTS

Now the Standard Oil Company and all those fellows have high-class, efficient men, so do the growers in California. We pay our managers anywhere from $10,000 to $36,000 a year; we get the best men in the country to do our work for us. We need the best brains in the country, and they *serve* the growers instead of *exploiting* them. Those men are in the industry right now, but they are on the other side of the fence. The other fellows pay them to *exploit* the growers; we pay them to *serve* the growers.

Now you growers want to determine that once for all. If you are going to apply this to the tobacco business you are going to build up the biggest busi-

ness in the United States. If you are going to handle it like a business, you have got to go into the world of brains and compete for brains, compete for ability. You have got to hire big men for marketing and big men for grading, big men for transportation experts, big men at every point of the game.

We not only hired Madison, but Madison came and studied the situation and said, "We have got to have transportation experts, warehouse experts, packing experts." The growers said they would get them. Then Madison said, "This is a funny business; we have this fine crop and yet we cannot make anything for a year. I am going to hire a sales analyst and put him on the job and find out why we can't sell raisins, but he will cost a lot of money." So he called in a sales analyst and said to him, "Your job is to answer one question—What is wrong with the raisin industry?" He said, "That is a pretty big question, but if you will give me a few months to study it I will answer it for you."

So this fellow went East. He went to every wholesaler who handles raisins; he went to all the retailers who handled raisins. He said to the wholesalers, "When do you want raisins delivered?" And they said October and November of every year. He went to the retailers and asked them when they wanted raisins delivered, and they said November and December of every year, that they sold 90% of the raisins in these months and only 10% the rest of the year. He found that was the story in almost every town in the United States. He came back and said, "I have found the trouble with the raisin industry," and he showed a chart showing the delivery dates and the sales date of raisins. He said, "The American people think that raisins are made to eat only three times a year—Thanksgiving, Christmas, and New Year. You have got to teach the American people that raisins are as good in June as they are in November." He said they had to do two things: first, get a brand for the raisins and then put on a good system of inspection; the second thing was to put on a big advertising campaign in the United States, through magazines, newspapers and billboards, that California raisins are good to eat all the time for every purpose. Whatever it costs this was the only thing that would save the industry. They told him to go ahead and spend whatever was necessary. They spent a few hundred thousand dollars on advertising raisins, and the first year they were organized they sold that entire 70,000 tons of raisins that they had to sell, plus the 20,000 tons carried over from the previous year, and the price to the grower ranged from 3¼c to 3½c a pound. In one year those raisin growers took that dead industry and they absolutely put it on its feet, so that the growers of California made a real and substantial profit on raisins from the crop of 1912, and since that date there has never been a crop of raisins on which the growers of California have not made a real and substantial profit—not merely an income, but a real profit.

SELL TO BAKER TRADE

Now those fellows were pleased at this, it happened so quick, so they started in to plant more vineyards, and by 1915 the normal crop in California was about 100,000 tons a year. They were afraid the people of the country would not eat that much, so they called in the sales expert again. He said, "We will have to get the people who are eating raisins to eat more raisins, or we will have to get people who are not eating raisins to eat raisins." He said, "I do

not think we can get people who are already eating raisins now to eat more raisins because we have saturated the field with raisins." He meant the use of raisins as a food.

So he went around and saw all the ladies he could in Fresno. He said, "How do you use raisins?" They said, "Sometimes we make raisin bread, and sometimes raisin pie and raisin cake." They showed him some of the raisin bread. It tasted good and he went back to the board and said, "I have got the answer to it- raisin bread and raisin pie and raisin cake." He got 15 young fellows who were trained salesmen and called in a baker, and the baker taught those young men how to make raisin bread and raisin pie and raisin cake in a standardized way. He then took those 15 young fellows all over the United States, to the big cities and the big hotels and bakeries, and showed them how to make raisin pie and raisin bread and raisin cake according to a standard recipe. They would go into a bakery and tell the baker how to make raisin bread and tell him, "All you have to do is to put in a quarter of a cent's worth of raisins in the bread, and then you sell it for six cents a loaf instead of five cents; and when your customer comes in you tell them the children like bread like that because it has raisins in it and they won't want butter, and you will save more for butter than you spent for the raisins." (Of course that's hard on you fellows who sell butter.)

Then the bakers all over the country began to make raisin bread. The first year they sold a fair quantity to the baker trade; the next year they sold 6,000 tons; by 1919 they sold 20,000 tons. This year they are selling 35,000 tons to the baker trade in this country.

Now that is merchandising. I have told you those things because the growers are the people who can do it if they will stand together. And it is just as true for tobacco as it is for raisins.

How is it that the High Five and the Low Five never found these new uses and this great demand for raisins? How is it that they never sent men over to China and Japan to open up markets? The dealer never exhausts the demand for any commodity. He never has to buy the whole tobacco crop. All he has to do is to buy what he can sell. All he has to do is to sell what he has bought. If there is a crop of one hundred million pounds and he has bought only fifty million pounds, all he has to sell is fifty million pounds, and he can let the growers carry the balance. The grower is the only man who has to sell the whole crop. The grower is the only man who really breaks his neck to extend demand, and that is absolutely true.

CREATING DEMAND FOR PRODUCT

It is to the dealer's interest that the supply is always greater than the demand, because if you have the supply greater than the demand, in a year he uses that as an excuse for breaking the price of tobacco, or raisins, or prunes, or oranges, or cotton, or wheat, or any other product in the world, year after year. It is to the dealer's advantage to have an overproduction. It is to the dealer's advantage to see that the world does not absorb that overproduction. The only time that the dealer ever comes to you and asks you to decrease your crop is when the dealer is stocked with tobacco, and he wants you to pull him out of the hole.

We have had that experience with industry after industry in California. It is only the growers who, acting as a whole, have learned how to create demands, who have been able to solve their problems. Our orange growers increased the demand for California oranges 300% by advertising. With raisins they increased the consumption in this country from 30,000 tons a year to 160,000 tons a year from 1912 to 1918, and every single one of those years was at a higher price than the previous year.

The growers can do it and they are the only fellows in the world who can do it, and they are the only people in the world who have the whole crop to sell and who therefore must do it. This is one of the great things we learned. In 1918 they had the raisin industry so prosperous that Fresno headed the list of the prosperous cities of the Union. You Virginians used to think you had great cities in towns like Lynchburg, Richmond, etc., on account of the prosperous factories. California towns head the list now in prosperity; not manufacturing towns, but our agricultural towns head the list. Look up and see what town is at the head of the prosperous towns in the United States—you will see that Fresno is.

Why even this year, when the majority of the growers of the country are flat broke, 9 out of 10 of the California farmers are making money on their products, and their products are not any better than your products. The only difference between California and Virginia is that we are organized in California and you are disorganized and exploited in Virginia. You can rest assured your crops are making money for someone, but it is not for the growers. Our crops in California are making money for lots of people—for the growers, for the merchants, for the bankers, for the dealers—all the way down the line; but the growers are getting their share. Where the growers of California used to get 8% of the consumer's dollar, today they are getting 48% of the consumer's dollar. Where the growers of California used to have to go around in overalls, dressed in the poorest things, with no carpets on their floors, unpainted houses, with their children working in the fields and not in the schools, today the standard of living among the California farmers is equal to that of the city man; his home is attractive, his children are in school, his family has a car and he has money in the bank. Today 2% only of the growers of California have to borrow money on crop mortgages. Today 2%, where in your State over 60% of your growers are said to have given crop mortgages.

I want to tell you, friends, there is only one reason. Our growers have learned that the way to succeed is to start in and help themselves. Nobody will do it for you. As long as you stay unorganized they will simply do it to *you*, but when once you are organized you do it for yourself. Why you know this California business is not a mystery; it is an absolutely true system. It is *merchandising* a product instead of *dumping* a product. It is going into the light instead of sitting in darkness. Remember you are never going to have the tobacco industry prosperous until you have the growers organized, working through the existing warehouses, working through the existing factories, on a real business system, the grower making money, the warehouse making money, and the factory making money, and every step depending on the grower, who is the key to the whole industry. He creates wealth, and he is entitled to share in the products of that wealth.

PRINCIPLES OF CALIFORNIA COOPERATIVES

I am going to give you in a few words the principles of the Californi Coöperative. Now you know somebody is going to say to you: "That fello gave you a whole lot of 'bull' about raisins and not a word of it applies t tobacco." Now I know the difference between raisins and tobacco as well a the fellow who says that. I know all these things are different, but we hap pen to be in touch with 26 different commodity associations, and we learne that the principles that apply to one apply to the others.

Here are the principles, and if you apply them to the tobacco associatio your chances of success are fine. It is not assured, but your chance for suc cess is excellent if you will coöperate and embody the principles that I wil state to you, the principles that were found to be successful in coöperativ marketing in the West.

ORGANIZE BY COMMODITY ON BUSINESS BASIS

The first is that you organize on a commodity instead of a local basis. Yo must organize by the commodity and not by the locality. That is why we ar organizing tobacco in the three big states. They are organizing in Kentucky the Burley fellows, separately; they are organizing the dark tobacco grower and we have our bright tobacco; and there will be three great organization: So you can organize by tobacco.

Second, you must organize on a real business basis. You don't want an politicians to get in it. Nobody gets in it unless he is a grower, or a landlor or lessor who gets all or a part of the rental in tobacco.

You are going to incorporate it, but it will be without capital stock. It wi be no fly-by-night stuff, no one-year contracts; but five years or nothing. Yo have tried the other system for three or four generations, and you see when it left you, you see how independent you are today. You see how many c you can raise your crops without crop mortgages. If you don't know by th time that that system is a failure, no number of people on earth can tell you.

You men call yourselves independent men because Virginia is the home c freedom and independence; but I would like to know how many men in th county here think they can sign this or any other contract for the sae c their own property without first thinking, "I wonder if my banker or the me chant I owe is going to let me do it?" I wonder how many of you are reall free men. There are lots of men who ought to be able to sign this contra without asking anybody's permission; but the majority of you cannot affor to do it. In Texas we estimated four out of five men had to get permissio from some merchant or some banker before they signed the cotton contract The bankers and merchants called a meeting. They admitted it was a refle tion on the independence of the men that the majority of them could not sig contracts for the sale of their own product without asking the permission c somebody who did not raise the product. We had that in California wit every industry when we started out, and we eliminated it in three years i every line. But you have got to organize on a business basis, a long term co tract and a strict contract. We do not tie up growers with a rope of sand we tie them up with a rope of steel. When they sign the contracts we nev

hesitate to go into court if a fellow tries to "welsh." Now, I know that no good Virginian would "welsh" on a contract, but sometimes fellows move into your State from outside. We had that experience out in California. Some fellows came in there from Nebraska or other states, and they tried to "welsh" our contracts, and we got them and we got their beans, and their alfalfa, and their prunes or their raisins, and we make them pay us for chasing them up. So you have to organize on a real business basis under a long-term, tight contract, and with a guaranteed minimum.

In California we never organize unless we know that we are big enough to hire the biggest men in the country. Three-fourths of all the growers signed up for raisins; three-fourths for prunes. We did not start up our egg association until we had signed up the owners of a million hens. From that point on we grow. Several of our associations in California have 92% of the products of the State—our almond growers and our raisin growers. Ninety-seven per cent of all the berries in central California move through an organization.

So with tobacco you will organize on a business basis; you are not going into existence unless you have signed up 50% of the tobacco raised in these three states. From the moment you start you will be the dominant factor in the bright tobacco markets in the world.

NON-PROFIT AND COOPERATIVE BASIS

Then we organize on a non-profit basis and a coöperative basis. The association cannot make a penny for itself. Everything that it does is to serve the grower. Every director has to be a grower; then all the interests are a community of interests—the growers' stuff and the directors' stuff all in the same pool. Then you grade it, put it in separate pools and sell it. The expenses are paid and the balance goes back to the grower.

DON'T WORK THROUGH AMATEURS

The next California principe is, don't work through amateurs; don't have anybody but experts. You won't have to have amateurs. There are already some men who have been angling to find out how the biggest jobs in this organization can be secured.

Armour Company has hired good men all over the world—able men—and their one purpose is to see if they can separate the farmers of the country from their grain at the lowest price to the farmer and the greatest profit to Armour. He hires experts. We hire experts too. We find that the Armour money is not any better than the farmer's money. We hire the very men that they hired, but we hire them to serve the farmer instead of exploiting the farmer; and they say they would rather work for the farmer for half the price than for the exploiter for double the price.

And what do these experts do? They do not have any magic wand. Coöperation is not a patent medicine. It is simply this: these experts handle our problems from a merchandising standpoint instead of from a dumping standpoint; they have learned how to control the so-called rules of supply and demand; they help create demand—we never get worried about demand. We need our experts in order to find out how to increase demand.

BORROW MONEY

Then we start out and we borrow the money on it, and I want you to know that our bankers at home have worked out several different systems under which we get money on our crops and can hold our goods over, so as to merchandise and not dump our crops. I want to tell you that if the world consumes one hundred and fifty million pounds of prunes a year and we have a crop of one hundred and eighty million pounds a year, we keep thirty million pounds of prunes to carry over. We don't let one man's prunes break the market against other prunes. We have learned how to do something with supply. We never have to say to our growers, "reduce your acreage," because they all pull together. We give to them the full proceeds of what is sold; we give to the monly the loan value of what is carried over. Every grower feels the same penalty for overproduction. Automatically they reduce their crops because they know if they produce more they will get loan value instead of sales value.

We have learned all that. We have threshed out all these problems of financing and warehousing. You know as well as I know that we could not run uor business for twenty-five years as we have in California without meeting all the problems that you men have to meet on tobacco. There is a precedent for anything you want in California, and this contract is simply the embodiment of all these principles I have been telling you about, and all the experience of Californians in the handling and marketing of farm products. We have adapted it to tobacco; we adapted it to tobacco with our eyes open.

We first looked up all about tobacco—don't listen to those fellows who come to you and tell you that I am full of prunes and raisins and that I don't know anything about tobacco grading, and that therefore this contract might be good for prunes and raisins and not good for tobacco. The fellow who tells you that is full of tobacco all right, and he has got a profit in keeping you in your present system.

SUMMARIZES AGREEMENT

I want to tell you as an expert along this line, that if you sign this contract it will prove to be your new Declaration of Independence, and will absolutely pull your industry, your whole industry, out of the failure in which disorganization has placed it today. It is not a hard agreement, and I am going to summarize it for you.

It says this: that all of you growers are going to form a non-profit, coöperative association to sell tobacco, and tobacco only of its members. It is going to sell throughout on a standard method.

Who can join it? Growers of tobacco and nobody ese. And that includes the landlord or lessor who gets all or part of the rental in tobacco.

BOARD OF DIRECTORS

Who is going to run it? A board of directors.

Who is going to elect them? You are. You will district out these three states into twenty-two districts; then you are going to hold primary elections in each of these twenty-two districts, and each district will have a primary election and elect delegates to the convention, and this convention will elect

one director who lives in that district and grows tobacco in that district. So you have Home Rule. Three directors won't have to be growers at all, or they don't necessarily have to be growers. These directors shall be men who are appointed by the Governor of Virginia, North Carolina and South Carolina, if they want to appoint them. They are going to represent the public, for it is a community movement and the public is entitled to be represented and to know what you are doing. It is probable that the Governors will appoint some banker or a big warehouseman or a big dealer. Remember, this association is not in conflict with the bankers; it is not in conflict with the manufacturers; it is not in conflict with the warehousemen; it is not in conflict with the dealers; it is not in conflict with anybody except the gamblers and speculators in tobacco. It is only in conflict with the fellows who gamble in tobacco and with the fellows who represent waste. Whenever you have a hundred buyers doing the work that could be done by one buyer, you are suffering a tremendous waste.

So the public will be represented on the board of directors, and we hope that the Governors will appoint real men on it. We have no secret, nothing illegal, nothing secretive. I have wondered if a lot of tobacco dealers would be willing to do the same thing, though I don't wonder any more since I read that report of the Federal Trade Commission. Did you know that the Department of Justice recommended new action against these tobacco firms for illegal conspiracy to "do" you growers by getting together and buying through only one buying concern? They can't have the public on their boards of directors; we can. We are doing nothing in the world which we will conceal from anybody under the sun. Our rules, our records, everything will be open; we want the public to sit right on the board with us. We are *for* everything legitimate; we are *against* nobody. We are at one with the manufactures, the warehousemen, the dealers, the bankers.

Now those directors are going to run your concern, but they will divide up. The board will have a selling committee; on every selling committee the directors will be men who grow that particular type of tobacco; that is, we won't have flue-cured directors determining the problems of your bright tobacco.

VOTING AND ENTRANCE FEE

How do the growers vote? One man, one vote. We don't care whether you raise 5,000 pounds or 50,000 pounds, you get one vote. One vote, one man.

How do you get in the association? By signing this contract and paying $3.00 dues. At present $3.00 is the entrance fee, that is supposed to take care of the cost of organization. If you have already paid something less than $3.00 into the Virginia Tobacco Growers Association this year, you are credited with that amount and don't have to pay it again on the entrance fee here.

Who is organizing this? Now it is not being organized by outsiders. It is being organized by a high-class committee, composed of men of North Carolina, South Carolina and Virginia. You know the names of the Virginia men. They are some of the finest men I have ever met in my life—men I would not hesitate to follow five years if I were a tobacco grower. You can trust them. North Carolina has men of similar type. The organization committee contains

men whose names you know, men who are fit to lead in any movement, men who would be fit to lead in California with all our experience if they were out in California at this time.

When do you start business? We have that provision in the contract that if you don't sign up half of the whole crop of these states by January 1, 1922, the contracts do not go into effect. All the work is lost. But I want you to do it fast, because if you sign up half by July 1, 1921, the contract will go into effect for this year's crop, and you won't have to wait for the 1922 crop. If you wait to get 50% by January 1, 1922, the association will not handle the 1921 crop. It will come in for 1922 only; but if we get 50% of the growers in these three states signed up by July 1st, we will handle the 1921 crop.

AFTER ORGANIZATION

Now what will this association do when it is organized? It is going to handle the crop according to the marketing agreement. The marketing agreement says that for five years you agree to deliver over to the association all the tobacco you raise. If you have a crop mortgage on your tobacco you can still sign the contract; only say so, and then the association cannot handle your tobacco unless the fellow who has your crop mortgage says so. If you have put a crop mortgage on your tobacco we will try to arrange with the man who holds the crop mortgage that we handle it for him as well as for yourself, and pay him the net proceeds after all the costs of the crop mortgage are paid off. So you can sign up even if you are plastered all over with crop mortgages, that is, with the consent of your mortgagee.

Then we take your tobacco and deliver it to any local warehouse that we designate. It will there be graded. We will actually do the grading; it will probably be done by some of the same men who do your grading now, except they will do the grading for you instead of against you.

Then the association will start off to sell your tobacco. They have a hundred different pools or a hundred different grades; each grade will be a separate pool. Then they will sell those pools from time to time, sell them anywhere in the world and to anybody in the world; sell them to dealers, manufacturers or exporters to Europe or anywhere in the world, so long as the price is fair. They may sell one pool of tobacco in six months; they may sell a pool in two months; they may sell out the entire pool in 12 months; they may not sell another pool for a year and a half. But as the pool is sold the money is divided among the men who put tobacco in that pool.

Now, men, any one of you might have tobacco in 15 different pools; you don't get all of your money until all the 15 pools are sold out, but you do get some of your money as each one of the pools is sold out. Now that is the whole situation.

There are things in the contract about what happens to the fellow who don't deliver all his tobacco; but I would not have the nerve to tell them to a Virginia audience. But you tell anybody who comes in from another state that if he intends to "welsh" on that contract he need not come in.

Then there are some clauses in there which tell about what happens if you have a co-partnership and two sign and break the co-partnership. In short,

the contract contains all the protective clauses that we know how to draw to see that the men who sign it actually deliver what they agree to deliver.

WAREHOUSING TOBACCO

Now there are two big points I have saved for the last: First, how are you going to warehouse tobacco? and second, do you get any money when you deliver your tobacco to the pool? There is a whole section which tells you how you acquire warehouses, how you buy them and issue preferred stock, and guarantee the preferred stock with all of your tobacco.

Out in California we got money when we needed it, bought in the plants, and the growers' prunes and apricots paid for them in the period of five years. The system is good, simple and sound. We are not going to build a plant. We are going to buy warehouses or lease warehouses or get contracts for warehouses wherever we can. Then we are going to try to employ that warehouseman to be our representative at that point, and receive and grade and store our tobacco. Then we are going to try to buy in those warehouses if they want to sell to us in the period of five years.

I want you to tell the warehousemen we have no fight with any warehouse or with any dealer or with any manufacturer. We are going to work with them; we need them and they need us equally. We are not a bunch of Bolsheviki running over the other fellow. We have found one way to market crops intelligently and fairly, and that is Coöperative Marketing, and we need plants to receive, grade and store our products; we are going to try to use the existing plants if these fellows will work with us. If they don't work with you there is a complete method worked out here where you can go and issue preferred stock in subsidiary corporations. We will get you the money that you need for your plant and put up the plants and buy them back with your tobacco one-fifth each year.

The warehouse problem is solved in your contract, but go to your warehouseman and tell him we want to use their plants and their experience for we need them for receiving, grading and storing our products and for helping us to sell our products.

ADVANCE PAYMENTS

Advance payments: Are you going to get any money when you deliver the tobacco? Of course, remember that I am a lawyer and not a prophet, and I do not want you to think that everything I say is a guarantee. It is not. All I am going to give you is an ordinary business custom as it is actually being done with coöperatives all over the West, and as the cotton bankers are preparing to do with the cotton associations of Oklahoma, Mississippi, Texas and Arkansas, to my own definite, personal knowledge, and as some of your banks are prepared to do with tobacco, to my own personal knowledge, because we have had a conference with some of the bankers in Richmond.

You know what we do in California? Just before the crop comes in our executive committee has a meeting with our local bankers to see how much we ought to pay the growers when the stuff comes in this year. We look up the market conditions and look up the statistics, and they figure out what it is safe to lend; and then they figure out how much money we will need on a normal crop, and each bank tells how much it can afford to loan on that basis.

In 1919 this pool agreed to loan us up to ten million dollars at 4¾% on banl ers' acceptances. Of course you can't get 4¾% at this stage of the game; yo can't get cheap money now; we are getting money in California at 6¼%. Yo have to work this out in conjunction with your local banks.

BANKING SYSTEMS USED

The method of the prune growers is to meet with the local bankers, find ou what is a fair advance to be made, arrange with pools of all the local bank ers, and their correspondents in San Francisco and New York say how th money shall be raised. We get the money in that system through bankers acceptances.

There is another method that has been worked out by the Washingto Wheat Growers Association. In that case we meet with the local banker and agree on a fair amount to be advanced for the loan value of wheat. Thi year it was up to $1.25 a bushel, depending on grade. The grower deliver to the association 1,000 bushels of No. 1 Red Walla Walla. Then the associa tion gives him a draft to draw on the association. He draws it on a regula form, signs the form and the association accepts it for $1,250 (if he has thousand bushels of wheat); it is a three months draft. There is a list whicl contains the names of all the bankers in that district who approve that plan He cannot go out of his district. He goes to any bank in his district an discounts that acceptance at the current discount rate. The bank gives hin the $1,250 less the 7% for three months, which is the discount rate out there

The bank, if it is a part of the Federal Reserve System, has a rediscountabl paper in its hands. It has on it the signature of the grower, and it has th signature of the association. The association has no capital stock, but it ha contracts with growers for 15 million bushels of wheat for four more years In addition to this, at the end of the day they send over to the banks th warehouse receipts or the grain checks or the bills of lading, and so likewis the bank has security behind it.

If it is not a bank of the Federal Reserve System it either holds the pape or sells it to its correspondents, who very likely are members of the Federa Reserve.

Now the banks reach their limit of rediscounts, and it cannot go any furthe in handling rediscountable paper. Now two things can be done: First, you can get the additional money you need on bankers' acceptances. That is th method which will be followed in Texas on cotton. Or you can do what they did in Washington, and that is, issue bonds against the wheat, and they sold every penny of bonds they had to issue.

CROP MORTGAGES

How do crop mortgages come in there? If the crop mortgage is less than the loan value of these drafts the bank takes the draft and acceptance, discounts it, keeps the money and applies it on the crop mortgage and wipes off the crop mortgage and accounts for the balance. In that way the bank gets rediscountable paper instead of a "frozen" crop mortgage. If the mortgage is greater than the loan value the bank takes this draft and acceptance, discounts it and applies it to what extent it goes to the crop mortgage. As to the balance,

the association agrees with the bank or merchant in writing that it will pay over the growers' share of the proceeds until that mortgage is satisfied, with interest, charges and costs in full.

There is not a single point either on advance payments or crop mortgages which is against modern banking, and which does not make it easier for the bank rather than harder for the bank. If the banker wants to be the friend of the grower as they have out West, that is the system that they follow.

I am going to summarize by saying I told you the raisin story—I did not tell you because it was interesting; I told you the raisin story as the nearest thing I know to the tobacco situation. In fact you can do more for tobacco than you can for raisins, because tobacco is less perishable than raisins. I then told you the principles that are exemplified in successful California Coöperative Marketing Associations. I ran through your contract. I told you that you form that association when you have 50% of the tobacco in Virginia and the two Carolinas signed up. You then go in and deliver your tobacco, grade it into pools and merchandise those pools. You will take care of your warehouses under the Coykendall plan of finance set out in full in your contract. You will take care of your advance payments and crop mortgages on a standard banking basis; you will ask the banks to appoint a committee to work that out with you. You will find that the best banks are for you. Some of the banks and some of the merchants are against you because perhaps they have an interest the other way; but don't get worried about that. The best of the banks, who are doing business in terms of the community, will be with you. So will your merchants; so will everybody who thinks for community prosperity instead of some one little individual, or some one particular year's prosperity.

DOES MORE THAN MAKE MONEY

Now I want to say this as a last thing: Don't think that coöperative marketing only makes money. It does more—money is the least thing that it makes. When we started coöperative marketing in California we had to pool with industries just like yours; and we had to pool them in districts just like yours; we had to pool in districts in which the standard of living is just what it is in the tobacco district of Virginia. I have told you that there is no difference now in the way our farmers live and the way our city people live. We have farmers who have $25,000 invested in a farm who live on the same plan as men who have the same amount invested living in the city. School systems were poor and everything else in the country was poor. We have changed all that; we have done it only through one thing—outsiders did not do it. Community effort did it. The growers, the bankers, the merchants, the editors, the lawyers, the doctors, the teachers in the community got together, and they substituted COOPERATIVE MARKETING instead of BLIND MARKETING. Our farmers and their families have a real standard of living today. Our farmers never worry about marketing. They worry about production only. They produce the things and they leave it to experts to market.

You are going to produce tobacco; you are going to organize and then leave it to experts to market your tobacco; and I stake my whole standing as an expert in this line that within three years, or five years at the most, you are going to have a new rural civilization in Virginia on this account.

Money is being made out of tobacco. You are not making it; you are not making your share. If you have coöperative marketing introduced you are going to close up that gap between the city man and the country man; you will not have your boys and girls working in the fields; you won't have women working in the fields. You won't have your country women and girls dressing differently from the city women and girls. You will have your country children getting the same education as the city children get. Your growers will have deposits of money; they will be carrying life insurance to provide for their future and the future of their families.

NOT MERE VISIONS

Now don't think that I am talking dream stuff or that I am treating you to a lot of visions. I want to say I have not said a word to you that I have not seen worked out in California; they have not seen it; I *have* seen it; I have not dreamed anything. I have seen this thing done and I have seen it done with fourteen different commodities in my own state. I have seen those growers flat and despairing just like you; I have seen those bankers and merchants suddenly jump to the lead and lead the growers to coöperation; and I have seen that coöperation change the rural civilization of California until now we boast in that state that we have the most enlightened rural farm group of any state in the land. Four-fifths of our farmers are called "Coöperatives"; 90% of them today are making real money from their products, whereas in almost every other state in the Union the farmer is flat broke. The result has been that the standard of rural living in California is on a plane that would amaze you. Our growers are not worried with the fear that the profit they make one year might have to go to pay the loss of the next year.

Who did it? Not the speculator or the gambler in the West. It was done by the growers, with the coöperation of the bankers and the merchants and the editors and the leaders of thought.

Now if we did it in California you can do it in Virginia. It is up to you to see that you will do it in Virginia.